

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-11 AID-05 CIAE-00

COME-00 EB-07 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 L-03 H-02

NSC-05 SS-15 STR-04 CEA-01 PA-01 PRS-01 /103 W

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R 090825Z JAN 76

FM AMEMBASSY MANILA

TO SECSTATE WAHHDC 1014

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USADB

FOR NAC AGENCIES

PASS TREASURY FOR MUNK/ZINMAN

E O 11652: ADS, DECLAS 4/9/76

TAGS: EAID, EFIN

SUBJ: PROPOSED FIVE-YEAR NOTES OF 1976, DUE JANUARY 15, 1981

REF: MANILA 0386

1. IN MEETING JANUARY 9, ADB BOARD OF DIRECTORS AUTHORIZED ADB PRESIDENT TO ISSUE AND TO SELL BANK'S PROPOSED FIVE-YEAR NOTES OF 1976, DUE JANUARY 15, 1981 IN ACCORDANCE WITH THE TERMS ANNOUNCED AND IN THE DRAFT RESOLUTION. THE BOARD OF DIRECTORS ALSO APPROVED ADB PRESIDENT'S PORPOSAL TO INCREASE THE TOTAL AMOUNT OF THE ISSUE TO \$100 MILLION FROM \$75 MILLION AS INITIALLY PERMITTED BY U.S. AUTHORITIES.

2. WITH REFERENCE TO REFTEL PARA. 2, ADB VICE PRESIDENT (PRESIDING IN ABSENCE OF PRESIDENT) ANNOUNCED THAT THE LIMITED OFFICIAL USE

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TERMS OF THE NOTES WERE: INTEREST RATE, 8.5 PERCENT

PER ANNUM; ISSUE PRICE, 99.75 PERCENT; UNDERWRITING COMMISSION, 0.85 PERCENT AND SELLING PRICE, 98.90 PERCENT. THE YIELD TO INVESTORS WOULD BE 8.56 PERCENT AND THE COST TO THE BANK, 8.81 PERCENT.

3. ADB VICE PRESIDENT NOTED THAT THE YIELD AND COST WERE LOWER BY 0.19 PERCENT AND 0.22 PERCENT, RESPECTIVELY, THAN THOSE FOR THE U.S. ISSUE IN APRIL 1975. HE ALSO EXPLAINED THAT THE PRESENT ISSUE WAS ORIGINALLY SCHEDULED FOR NOVEMBER 18, 1975. HOWEVER, DUE TO UNFAVORABLE MARKET CONDITIONS, PRIMARILY THE SUDDEN INCREASE IN THE COST TO THE BANK FROM ABOUT 9.04 PERCENT TO 9.2 PERCENT JUST PRIOR TO THE NOV. 18 MEETING, ADB PRESIDENT DECIDED TO POSTPONE ANNOUNCEMENT OF ISSUE PENDING A REVIEW OF MARKET CONDITIONS. ADB PRESIDENT CONSIDERS THAT PRESENT MARKET CONDITIONS AND PROPOSED TERMS ARE FAVORABLE FOR AN ADB BORROWING IN THE U.S.

4. ALL DIRECTORS SUPPORTED ADB PRESIDENT'S PROPOSAL. FRENCH DIRECTOR STRESSED THAT THIS EXPERIENCE SUGGESTS THAT THE BANK SHOULD BE PERMITTED SUBSTANTIAL FLEXIBILITY IN IMPLEMENTING THE LIQUIDITY POLICY OF HOLDING TWO YEARS ESTIMATED DISBURSEMENTS. U.S. DIRECTOR AGREED THAT THE BANK SHOULD HAVE FLEXIBILITY BUT SUPPORTED THE NEED TO FOLLOW GUIDELINES. IN THIS INSTANCE, CHANGES IN THE MARKET CONDITIONS FAVORED THE BANK OBJECTIVES, BUT THERE ARE SUBSTANTIAL UNCERTAINTIES IN PREDICTING MARKET RATES. U.S. DIRECTOR SAID NEVERTHELESS BANK SHOULD BE COMPLIMENTED FOR DECISION TO POSTPONE ISSUE IN NOVEMBER AND NOTED THAT THERE WAS A REDUCTION OF 40 BASIC POINTS WHICH MEANT A SAVING OF ABOUT \$1.5 MILLION FOR THE BANK.
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